

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT  
Reimbursement Section**

**Attachment 4.19-A Reimbursement for Hospital Services**

**Table of Contents**

<b>Section I</b>	<b>Acute Care Hospital Services</b>	
	Hospital Reimbursement	I-1 thru I-250
	Reimbursement for Administrative Patient Days	I-251 thru I-255
	Disproportionate Share Reimbursement	I-256 thru I-300
<b>Section II</b>	<b>Governmental Psychiatric Hospital Services</b>	
	Governmental Psychiatric Hospital Reimbursement	II-1 thru II-25
	Reimbursement for Administrative Patient Days	II-26 thru II-35
	Disproportionate Share Reimbursement	II-36 thru II-40
<b>Section III</b>	<b>Out-of-State Hospital Services</b>	
	Out-of-State Hospital Reimbursement	III-1 thru III-10
<b>Section IV</b>	<b>Special Hospital Services</b>	
	1983 Hospital Rate Review Guidelines	IV-1 thru IV-26

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**Basis of Payment - Hospitals - Acute General and  
Special (Classification A) Reimbursed Under the Diagnosis  
Related Groups (DRG) System - Inpatient Services**

**SECTION 5. PROCEDURAL AND METHODOLOGICAL REGULATIONS**

- 5.1 Derivation of Preliminary Cost Base
- 5.2 Uniform Reporting: Current Costs
- 5.3 Costs Per Case
- 5.4 Development of Standards
- 5.5 Reserved
- 5.6 Schedule of Rates
- 5.7 Extraordinary Expense
- 5.8 Reserved
- 5.9 Current Cost Base
- 5.10 Financial Elements Reporting/Audit Adjustments
- 5.11 Identification of Direct and Indirect Costs Related to  
Medicaid Patient Care
- 5.12 Patient Care Cost Findings: Direct Costs Per Case,  
Physician and Non-Physician
- 5.13 Reasonable Cost of Services Related to Patient Care
- 5.14 Standard Costs Per Case
- 5.15 Reasonable Direct Cost Per Case
- 5.16 Net Income From Other Sources
- 5.17 Update Factors
- 5.18 Capital Facilities
- 5.19 Division Adjustments and Approvals
- 5.20 Derivation from Preliminary Cost Base
- 5.21 Schedule of Rates-Effective Date

**SECTION 6. FINANCIAL REPORTING PRINCIPLES AND CONCEPTS**

- 6.1 Reporting Period
- 6.2 Objective Evidence
- 6.3 Consistency
- 6.4 Full Disclosure
- 6.5 Materiality
- 6.6 Basis of Valuation
- 6.7 Accrual Accounting
- 6.8 Accounting for Minor Moveable Equipment
- 6.9 Accounting for Capital Facilities Costs
- 6.10 Timing Difference
- 6.11 Self Insurance
- 6.12 Related Organizations
- 6.13 Financial Elements (Generally)
- 6.14 Services Related to Medicaid Patient Care
- 6.15 Medicaid Direct Patient Care
- 6.16 Paid Taxes
- 6.17 Educational, Research and Training Program
- 6.18 Capital Facilities

93-11-MA(NJ)

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**OFFICIAL**

6.19 Major Moveable Equipment  
6.20 Reserved  
6.21 Reserved  
6.22 Natural Classifications of Expense  
6.23 Medical and Surgical Supplies  
6.24 Non-Medical and Non-Surgical Supplies  
6.25 Purchased Services  
6.26 Major Moveable Equipment  
6.27 Reports of Costs and Revenues  
6.28 Excluded Health Care Services  
6.29 Education and Research  
6.30 Sales and Services Not Related to Patient Care  
6.31 Patient Convenience Items  
6.32 Administrative Items  
6.33 Non-Operating Revenues (Net of Expenses)  
6.34 Reporting of Cost and Revenues  
6.35 Medical-Surgical Acute Care Units (MSA)  
6.36 Obstetric Acute Care Unit (OBS)  
6.37 Pediatric Acute Care Units (PED)  
6.38 Psychiatric Acute Care Units (PSA)  
6.39 Burn Care Units (BCU)  
6.40 Intensive Care Units (ICU)  
6.41 Coronary Care Units (CCU)  
6.42 Neo-Natal Intensive Care Unit (NNI)  
6.43 Newborn Nursery (NBN)  
6.44 Emergency Services (EMR)  
6.45 Anesthesiology (ANS)  
6.46 Cardiac Catheterization (CCA)  
6.47 Delivery and Labor Rooms (DEL)  
6.48 Dialysis (DIA)  
6.49 Drugs Sold to Patients (DRU)  
6.50 Electrocardiology (EKG)  
6.51 Laboratory  
6.52 Medical and Surgical Supplies Sold (MSS)  
6.53 Neurology, Diagnostic (NEU)  
6.54 Nuclear Medicine (NMD)  
6.55 Occupational and Recreational Therapy (OCC)  
6.56 Operating and Recovery Room (ORR)  
6.57 Organ Acquisition (ORG)  
6.58 Physical Therapy (PHT)  
6.59 Psychiatric/Psychological Services (PSY)  
6.60 Radiology, Diagnostic (RAD)  
6.61 Respiratory Therapy (RSP)  
6.62 Speech Pathology and Audiology (SPA)  
6.63 Therapeutic Radiology (THR)  
6.64 Central Supply Services (CSS)

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MAR 12 1993

93-11-MA(NJ)

OFFICIAL

- 6.65 Dietary (DTY)
- 6.66 Housekeeping (HKP)
- 6.67 Laundry and Linen (L&L)
- 6.68 Medical Records (MRD)
- 6.69 Pharmacy (PHM)
- 6.70 Social Services (SOC)
- 6.71 Research (RSH)
- 6.72 Nursing and Allied Health Education (EDU)
- 6.73 Graduate Medical Education (GME)
- 6.74 General Administrative Services (GAM)
- 6.75 Inpatient Administrative Services (IAM)
- 6.76 Malpractice Insurance (MAL)
- 6.77 Employee Health Insurance (EHI)
- 6.78 Repairs and Maintenance (RPM)
- 6.79 Utilities Cost (UTC)

#### SECTION 7. DIAGNOSTIC RELATED GROUPS (DRG)

- 7.1 Diagnosis Related Groups
- 7.2 Outliers
- 7.3 List of Diagnosis Related Groups

#### SECTION 8. Graduate Medical Education and Indirect Medical Education

- 8.1 Calculation of the amount of Graduate Medical Education (GME) and Indirect Medical Education (IME) reimbursement
- 8.2 Distribution of GME reimbursement
- 8.3 Establishment of GME and IME interim reimbursement
- 8.4 Establishment of GME and IME final method of reimbursement

#### SECTION 9. REVIEW AND APPEAL OF RATES

- 9.1 Review and Appeal of Rates

#### SECTION 1. APPENDIX

- 1.1 Definitions
- 1.2 Reimbursement for Graduate Medical Education
- 1.3 Cost Components and Proxies for the Economic Factor
- 1.4 Summary of Hospital Rate Setting System Effective 3/12/93
- 1.5 DRG Listing
- 1.6 LOW LENGTH OF STAY OUTLIER PAYMENT NUMERIC EXAMPLE  
HIGH LENGTH OF STAY OUTLIER PAYMENT NUMERIC EXAMPLE
- 1.7 MEASURES OF RESOURCE USE NUMERIC EXAMPLE

**OFFICIAL**

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**PROCEDURES AND METHODOLOGY**

**5.1 Derivation of Preliminary Cost Base**

- (a) For acute care (general) hospitals and class A special (classification A) hospitals, the Division of Medical Assistance and Health Services (hereafter referred to as the Division or its designee), on or before March 12, 1993 and on or before January 31 of each subsequent rate year, shall implement a rate. For hospitals with a fiscal year of January 1, the rate year will be the calendar year. For hospitals on a fiscal year beginning other than January 1, but before July 1, the rate year will be the year the fiscal year begins and for hospitals on a fiscal year beginning between July 1 and December 31, the rate year will be the year the fiscal year ends.

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**5.2 Uniform Reporting: Current costs**

Hospitals shall be required to submit reports as required in Section 6. The Director shall review the actual costs for the institutions as reported in accordance with the Financial Reporting Principles and Concepts (Section 6). The review will be performed according to the methodology outlined below. Costs, so reported, shall be subject to revision due to subsequent audits.

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**5.3 Costs Per Case**

Direct and indirect care costs shall be allocated to inpatient and outpatient services. Direct and indirect costs allocated to inpatient services shall be used to determine inpatient rates per case according to patient diagnosis. This cost finding process is described in sections 5.9 through 5.12.

**5.4 Development of Standards**

The Director shall develop standards for each Diagnosis Related Group based on the median cost per case for Medicaid recipients. The standards shall be adjusted to account for significant differences in labor market areas. These standards are developed according to criteria set in sections 5.13 through 5.20. Standards so developed and issued for a rate year shall remain unaffected and no adjustments, modifications or other changes to the standards shall be made.

**5.5 Reserved****5.6 Schedule of Rates**

- (a) In order to determine reasonable physician costs, hospitals shall report to the Director any significant changes in the contractual basis of any and all physician compensation arrangements which have occurred after the current cost base. Failure to report these changes shall result in these costs not being recognized.

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- (b) For each hospital, the Division shall issue a Schedule of Rates for each Diagnosis Related Group.

#### 5.7 Extraordinary expense

If supported by adequate documentation, the Proposed Schedule of Rates shall include an adjustment for allowable cost for an extraordinary event of a non-recurring nature which occurred in the Current Cost Base and which is reported to the Division by October 15 of the year prior to the issuance of the Proposed Schedule of Rates.

#### 5.8 Reserved

95-7-MA(NJ)

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## 5.9 Current Cost Base

- (a) A hospital's Current Cost Base is defined as the actual costs and revenues as identified in the Financial Elements in the base reporting period as recognized by the Division for purposes of rate setting.
- (b) The Current Cost Base is used to develop the Preliminary Cost Base (PCB) and Schedule of Rates through:
  - 1. Determination of the costs of Medicaid patients treated in the 1988 base year;
  - 2. Identification of fixed and variable components of the Preliminary Cost Base;
  - 3. Calculation of the economic factor cost component as defined in section 5.17(a);
  - 4. Calculation of the technology factor as described in section 5.17;
  - 5. The costs used to set rates for the rate year will be based on 1988 costs.
- (c) A hospital's actual cost reports cannot be substituted or rearranged once the Director has determined that the actual cost submission is suitable for entry into the data base.



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95-07

APR 28 1999

MAR 6 1996

**5.10 Financial elements reporting/audit adjustments**

- (a) The aggregate Current Cost Base is developed from Financial Elements reported to Division and includes:
1. Costs related to Medicaid direct patient care as defined in section 6.14;
  2. Less net income from specified sources;
  3. Capital facilities allowance: Capital cash requirements (as defined in sections 5.18 and 6.18);
- (b) All reported financial information shall be reconciled by the hospital to the hospital's audited financial statement. In addition, having given adequate notice to the hospital, the Director may perform a cursory or detailed on-site review at the Division's discretion, of all financial information and statistics to verify consistent reporting of data and extraordinary variations in data relating to the development of the rates. Any adjustments made subsequent to the financial review (including Medicare audits and reviews) shall be brought to the attention of the Division by the hospital, the Department of Health, and appropriate fiscal intermediary or payer where appropriate and shall be applied proportionately to the Schedule of Rates. All such adjustments shall be determined retroactively to the first payment on the Schedule of Rates and shall be applied prospectively.

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